
CDIAC/CASBO Workshop

The ABC's of School Debt Financing

Session I

Sources of School Finance and Considerations

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KNN

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Why Are We Here?

- Purpose of today's workshop:
 - Understand options
 - Know where to go with questions
 - Sound intelligent when you ask a question
 - Resources for future reference



ABC's of Debt Financing

- What do we mean by “debt”?
 - Borrow now, pay back later with interest

- What do we mean by “financing”?
 - The technical side of borrowing
 - the legal documentation
 - the interest rates & amortization
 - the on-going obligations
 - Must be in place for someone to give you the money



Constitutional Debt Limit

- California Constitution, Article 16, Section 18a:
 - *No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds [now 55% for schools] of the voters of the public entity voting at an election to be held for that purpose [...]*
 - In other words, public agencies can't go into debt without voter approval.
 - TRANs are not debt because they are short-term.
 - Leases are not debt because they are contingent on use of equipment or property



Why Borrow?

- Economics of debt & time value of money
 - Borrow now to pay for project; interest paid is less than additional costs that result from inflation.

EXAMPLE: Project: **Multipurpose Room**
 Cost (Today): **\$ 1,200,000**
 Inflation Rate: **4.30%** (Consumer Price Index)
 Borrowing Rate: **4.50%** (10 year Treasury)

Finance Project Now - Debt Service Schedule				
Date	District Payment	Principal	Interest	Balance
1/1/2006				\$ 1,200,000
1/1/2007	\$ 151,655	\$ 97,655	\$ 54,000	1,102,345
1/1/2008	151,655	102,049	49,606	1,000,296
1/1/2009	151,655	106,641	45,013	893,655
1/1/2010	151,655	111,440	40,214	782,215
1/1/2011	151,655	116,455	35,200	665,760
1/1/2012	151,655	121,695	29,959	544,065
1/1/2013	151,655	127,172	24,483	416,893
1/1/2014	151,655	132,894	18,760	283,999
1/1/2015	151,655	138,875	12,780	145,124
1/1/2016	151,655	145,124	6,531	(0)
Total Payments: \$ 1,516,546		\$ 1,200,000	\$ 316,546	

Don't Finance, Wait...	
	Escalation of Project Cost:
Now	\$ 1,200,000
Year 1	1,251,600
Year 2	1,305,419
Year 3	1,361,552
Year 4	1,420,099
Year 5	1,481,163
Year 6	1,544,853
Year 7	1,611,281
Year 8	1,680,567
Year 9	1,752,831
Year 10	1,828,203



Why Borrow? (2)

- ❑ Future Students / Homeowners will benefit – they should pay for some of the costs
- ❑ Reduce one-time burden and match repayment to useful life of project

Useful Life Table (Partial) (from SACS & ASBO)	
Capital Asset	# of Years
School Buildings	50
Portable Buildings	25
Site Improvements	20
HVAC Systems	20
Roofing	20
Kitchen Equipment	15
Vehicles (Buses)	8
Copiers	5
Computer Software (Instructional)	10 - 20
Computer Software (Administrative)	5 - 10
Computer Hardware	5



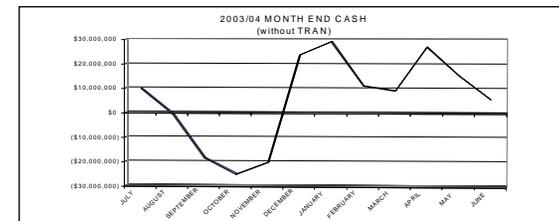
Why Borrow (3)?

- ❑ Need the money/portables/copier/roof NOW!



Determining Need

- First Question:
 - What is the District's financing need?
- Only possible answers for which money can be borrowed:
 - Cash flow deficit
 - Capital Project (real property or equipment)



Capital Projects

- Continuation of first question - Are the Capital Projects...
 - ❑ District-wide facilities projects?
 - ❑ Specific to a school or neighborhood?
 - ❑ New construction or modernization?
 - ❑ Equipment?



Who Pays for It?

- Second Question:
 - Who will pay for this?
- Possible Answers:
 - District (General Fund)
 - Designated revenue (e.g., developer fees)
 - Taxpayers
 - State
 - Specific neighborhood benefiting from project



Sources/Types of Financing

Type of Financing	Voter-Approved	Not Voter-Approved	Who's responsible for repayment?
General Obligation Bonds (GOB)	X		All Taxpayers
School Facility Improvement District (SFID)	X		Taxpayers within specific SFID
Mello-Roos (Community Facility District (CFD))	X		Property owners within CFD
Direct Lease (under \$3 million)		X	District
Certificates of Participation (COPs) (over \$3 million)		X	District
Tax and Revenue Anticipation Notes (TRAN)		X	District



Features

Type of Financing	Uses	Amount	Term
General Obligation Bonds (GOB)	Capital Projects on Voter List	\$500,000+	Up to 40 years
School Facility Improvement District (SFID)	Capital Projects on Voter List	\$500,000+	Up to 40 years
Mello-Roos (Community Facility District (CFD))	Capital Projects	\$500,000+	Up to 40 years
Direct Lease (under \$3 million)	Capital Projects, may include equipment	\$50,000-\$3M	2-10 years
Certificates of Participation (COPs) (over \$3 million)	Capital Projects, may include equipment	\$3M+	Up to 30 years
Tax and Revenue Anticipation Notes (TRAN)	Cash flow deficit or working capital	\$50,000+	1 year



Other Considerations

- Length of repayment
 - Must match useful life of project
 - For Cash-flow borrowings, generally must be repaid within one year

- Board & community support

- Staff time/capabilities



Debt Management Policy

- Sets guidelines for debt issuance decisions;
 - Caps on General Fund Debt
 - Parameters for technical terms and conditions of debt
- Provides opportunity to educate Board and staff on roles and responsibilities
- Look to CDIAC and other advisors for help developing policy.



Overview of the Financing Process

1. Determine need
 - Project description
 - Timeline
 - Cost/Expenditure schedule

2. Identify who will make payments (community/general fund/other funds)
 - Are funds available “internally”?
 - Will community support a tax, and how much?

3. Identify “team” to coordinate financing
 - Retain Financial Advisor
 - Retain Bond Counsel



Process Overview, continued

4. Legal Framework

- ❑ Voter approval
- ❑ District Board approval
- ❑ County Board approval

5. Disclosure & Credit Review

Information provided to investors must be:

- ❑ Accurate
- ❑ Thorough
- ❑ Up-to-Date



Process Overview, continued

6. Pricing

- Can be done competitively or negotiated
- Interest rates are determined
- Repayment schedule is set

7. Closing

- Paperwork is signed
- Money changes hands



Process Overview, continued

8. Ongoing responsibilities

- Repayments
- Investing proceeds
- Other obligations



Parties to a Securities Transaction



Bond Counsel



Financial Advisor



(Wants lowest cost)



County Treasurer/ Auditor

Seller of Bonds (Borrower)

Buyer of Bonds (Lender)



Rating Agency



Underwriter



**Bond Trustee/
Registrar/
Paying Agent**



Disclosure Counsel



**Investors
(Wants highest return)**



Underwriter's Counsel



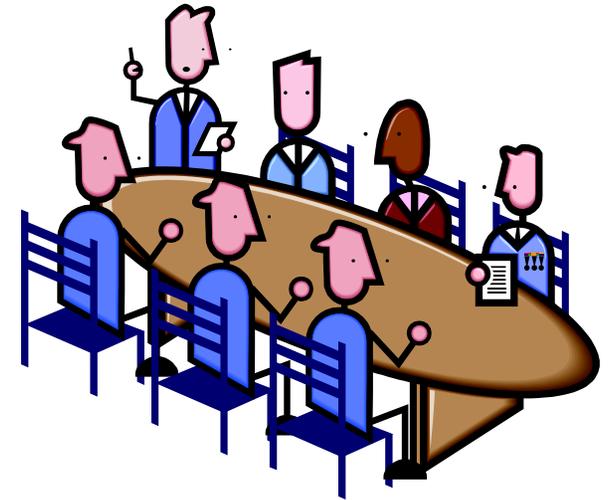
Managing the Financing Process

- Bring in the experts
- Check references
- Interest rates are big part of picture; but also look at other up-front costs
- Compare net funds to district to the net payment(s) by district
- Is disclosure complete, accurate, and not misleading?
- How complicated is the ongoing management? Who is going to do it?



Oversight Committees

- Citizens Oversight Committee required for 55% (Prop. 39) elections
- Committee oversees bond program expenditures and construction progress
- Role is limited – oversight and review only, no decision-making powers
- Make-up of committee specified in law



Expert Committees

- Community members often can provide expert advice on construction matters
- Builds community support for District
- Need to balance with demands on staff



Investing in the Interim

- While funds are waiting to be spent, consider interest earnings
- Interest earnings stay with the funds that earned it
- Arbitrage considerations



Investment Options

- County Pool
 - Default for District Funds
- LAIF
 - Requires Board Approval
- Guaranteed Investment Contract (“GIC”) or Investment Agreement
 - Requires board approval
- Sweep or Other Trustee-Held Account



Additional Resources

- **CDIAC** —
<http://www.treasurer.ca.gov/cdiac>
 - ❑ Debt Primer
 - ❑ Debt issuance seminars
 - ❑ Debt Line and special publications
- **CASBO** – <http://www.casbo.org>
 - ❑ Library and Bookstore
 - ❑ Conferences and Seminars
- **GFOA** — <http://www.gfoa.org>
 - ❑ Recommended practices
 - ❑ Digital Finance Library
- **NFMA** — <http://www.nfma.org>
 - ❑ Good links page
 - ❑ Best practices in disclosure
- **Rating Agencies**
 - ❑ Selected articles published on public sites
 - ❑ Call your analyst if you want something specific

